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1986 ANNUAL REPORT





he Corporation

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Dillard Department Stores, Inc., is a regional group of traditional department stores operating 115 stores at year end: 41 in Texas, 16 in Missouri, 14 in Oklahoma, 11 in Arizona, 8 in Arkansas, 8 in Kansas, 6 in Louisiana, 4 in New Mexico, 3 in Nevada, 3 in Tennessee and 1 in Illinois. The stores vary from 40,000 square feet to 380,000 square feet in size. The stores feature branded goods in the middle to upper-middle price ranges and cater to a broad spectrum of the population. Special emphasis is placed upon fashion-oriented apparel and home furnishings.



## General Information

**Annual Meeting:**  
Saturday, May 16, 1987 at 9:30 a.m.  
Board Room  
Union National Bank  
Capitol and Louisiana  
Little Rock, Arkansas 72201

**Form 10-K:**  
Copies of the Company's 10-K  
Annual Report may be obtained by  
written request to:  
J. K. Jameson, III, Vice President  
Post Office Box 486  
Little Rock, Arkansas 72203

**Corporate Headquarters:**  
900 West Capitol Avenue  
Little Rock, Arkansas 72201  
**Mailing Address:**  
Post Office Box 486  
Little Rock, Arkansas 72203  
**Telephone:** 501-376-5200  
**Telex:** 910-722-7322

**Transfer Agent and Registrar:**  
Centerre Trust Company  
St. Louis, Missouri

**Listing:**  
American Stock Exchange  
Ticker Symbol "DDSA"



Front Cover Photograph  
Camelview Plaza  
Scottsdale, Arizona

## Financial Highlights

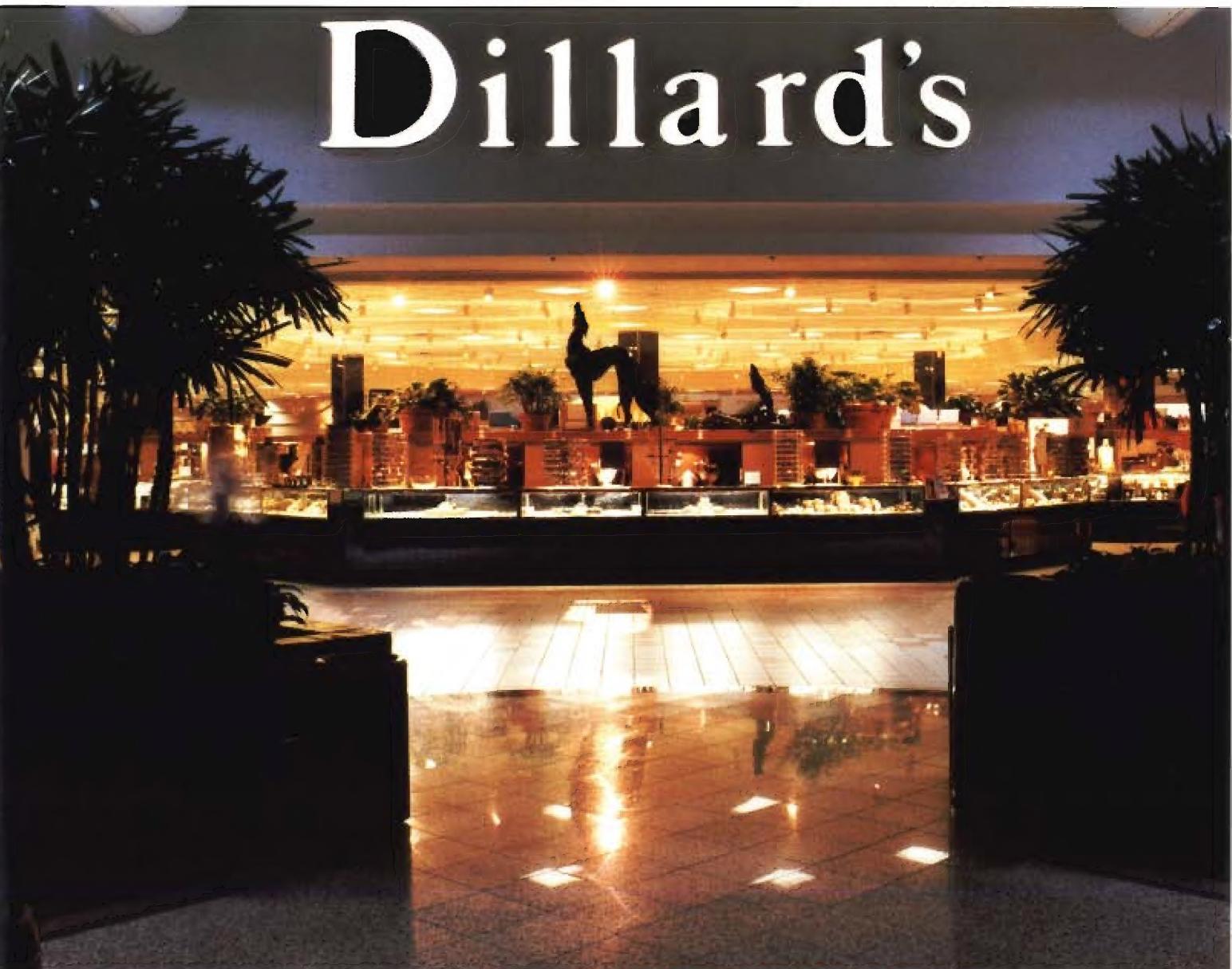
(Dollars in thousands except per share amounts)

	1986	1985
Net Sales .....	<b>\$ 1,851,423</b>	\$ 1,601,357
Income Before Income Taxes .....	<b>131,858</b>	114,903
Net Income .....	<b>74,458</b>	66,903
Per Common Share .....	<b>2.35</b>	2.29
Average Number of Common Shares Outstanding .....	<b>31,692,698</b>	29,206,490
Book Value Per Share .....	<b>17.31</b>	12.42
Dividend Per Common Share .....	<b>.12</b>	.105
Number of Stores in Operation at Year End .....	<b>115</b>	101
Number of Employees — Average .....	<b>18,412</b>	16,010
Number of Stockholders at Year End .....	<b>2,911</b>	2,524

## Stock Prices and Dividends By Quarter

Quarter	Sales Prices — Common Shares				Dividends Per Share	
	1986		1985		1986	1985
	High	Low	High	Low		
First	<b>\$44.37</b>	<b>\$37.50</b>	\$31.06	\$21.81	<b>\$.030</b>	\$.025
Second	<b>45.12</b>	<b>34.25</b>	38.12	28.37	<b>.030</b>	.025
Third	<b>41.87</b>	<b>32.00</b>	34.75	30.12	<b>.030</b>	.025
Fourth	<b>43.75</b>	<b>37.62</b>	44.50	32.12	<b>.030</b>	.030

# Dillard's



Pecanland Mall  
Monroe, Louisiana



## Letter To Stockholders

For the year ended January 31, 1987, Dillard's achieved record results for both sales volume and net income. Net sales for the year were \$1,851,423,000, 15.6% above the previous year sales of \$1,601,357,000. Net income for the year was \$74,458,000, 11.3% above the previous year's net income of \$66,903,000. Net income per share was \$2.35 compared to \$2.29 per share last year. Average shares of common stock outstanding for the 1986 year were 31,692,698 versus 29,206,490 for the 1985 year.

These results were accomplished under extremely difficult circumstances through a portion of our trade territory. The economy in the oil producing areas of our territory began to deteriorate very rapidly in the latter part of the first quarter following the steep reduction in oil prices. This condition continued for the balance of our year. Taking into consideration the economic climate to which we were exposed, I feel that our results for the year were satisfactory and reflected an above average performance

by our company.

On March 3, 1986, we acquired 10 stores that formerly were Macy's Midwest Division. We combined the Macy Wichita store with our Fort Worth Division, which was then operating two stores in Wichita. The remaining 9 Macy stores were combined with our existing St. Louis - Kansas City Division. The purchase of these stores enlarged our position in Kansas City and Wichita and facilitated our entry into Topeka, Kansas.



William Dillard  
Chairman of the Board



## Letter To Stockholders

(continued)

During 1986 we opened new stores in Beaumont, Texas; Sherman, Texas; Alexandria, Louisiana; Flagstaff, Arizona; Scottsdale, Arizona; two stores in Tulsa, Oklahoma, and replacement stores in Pine Bluff, Arkansas and Corpus Christi, Texas.

Additional stores were purchased in Lubbock, Texas; San Angelo, Texas and Port Arthur, Texas.

One Macy store (Oak Park, Kansas City), the new Scottsdale store and the purchased Lubbock, Texas store were consolidated into existing stores we had in each location.

During 1987 we will open six additional new stores located in Salina, Kansas; Kansas City, Missouri; Memphis, Tennessee; Muskogee, Oklahoma; Manhattan, Kansas and St. Louis, Missouri. The new space planned for 1987 will be approximately 638,000 square feet.

On April 3, 1986 we issued 2,949,121 new shares of our Class A common stock that were sold in an underwritten public offering and concurrent private placement. The public offering price was \$43.50 and the net proceeds to the company were \$123,492,000. The proceeds from the equity sale were more than sufficient to fund the net purchase price of the Macy store acquisition.

During 1986, we issued \$200,000,000 of notes that were sold in underwritten public offerings. \$50,000,000 8.375% notes due April 15, 1996, \$50,000,000 8.125% notes due November 1, 1993, and \$50,000,000 8.0% notes due January 15, 1999 were issued by Dillard Department Stores, Inc. An additional \$50,000,000 7.375% notes due January 15, 1992 were issued by our wholly owned unconsolidated subsidiary, Dillard Investment Co., Inc.

As we leave 1986 behind us, we can report to you that we will continue to represent to our customers department stores that are well located, housed in clean, well equipped and tastefully presented surroundings offering to those customers complete selections of fashion merchandise at competitive prices. At this time we can convey to you that the economic shock and fear that was widespread in some of our trade territory during 1986 is lessening and we are guardedly optimistic that we will see improving economic trends in 1987. Additionally, we can report to you that at the end of 1986 our company's financial condition is the strongest in its history.

Sincerely,



William Dillard



St. Louis Galleria  
St. Louis, Missouri



## New Stores Opened—1986

February 19, 1986

A 160,000 square foot store in Parkdale Mall at Beaumont, Texas.

March 12, 1986

A 60,000 square foot store in Kensington Galleria at Tulsa, Oklahoma.

March 19, 1986

A 70,000 square foot store in Midway Mall at Sherman, Texas.

July 30, 1986

A 100,000 square foot store in the Pines Mall at Pine Bluff, Arkansas  
(replacing a store closed).

August 6, 1986

A 200,000 square foot store in Padre Staples Mall at Corpus Christi, Texas  
(replacing a store closed).

August 13, 1986

A 100,000 square foot store in Alexandria Mall at Alexandria, Louisiana.

August 20, 1986

A 160,000 square foot store in Eastland Mall at Tulsa, Oklahoma.

October 8, 1986

A 70,000 square foot store in Flagstaff Mall at Flagstaff, Arizona.

November 14, 1986

A 118,000 square foot store in Camelview Plaza at Scottsdale, Arizona  
(consolidated with an existing store).



Padre Staples Mall  
Corpus Christi, Texas



## New Stores Acquired—1986

March 3, 1986	Macy's Midwest Division, R. H. Macy & Co., Inc. Kansas City, Missouri - Kansas	
	Antioch Shopping Center	79,000 square feet
	Bannister Mall	165,000 square feet
	Indian Springs Shopping Center	97,000 square feet
	Metro North Mall	161,000 square feet
	Mission Shopping Center	120,000 square feet
	Country Club Plaza	72,000 square feet
	Oak Park Center (consolidated with an existing store)	171,000 square feet
	The Landing (subsequently closed)	89,000 square feet
	Topeka, Kansas	
	Downtown	125,000 square feet
	Wichita, Kansas	
	Downtown	160,000 square feet
July 14, 1986	Lubbock, Texas	
	South Plains Mall (consolidated with an existing store)	100,000 square feet
	San Angelo, Texas	
	Sunset Mall	48,000 square feet
July 28, 1986	Port Arthur, Texas	
	Central Mall	60,000 square feet



Calvin Klein  
Obsession for Men



## New Stores To Be Opened—1987

February 25, 1987

A 70,000 square foot store in Central Mall at Salina, Kansas.

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March 17, 1987

A 150,000 square foot store in AT&T complex at downtown Kansas City, Missouri.

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August, 1987

A 140,000 square foot store in Hickory Ridge Mall at Memphis, Tennessee.

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September, 1987

A 70,000 square foot store in Arrowhead Mall at Muskogee, Oklahoma.

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October, 1987

A 70,000 square foot store in Manhattan Town Center at Manhattan, Kansas.

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October, 1987

A 138,000 square foot store in Mid Rivers Mall at St. Peter's, Missouri.

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 Eastland Mall  
Tulsa, Oklahoma

# Corporate Organization

## Management

William Dillard  
Chairman of the Board  
Chief Executive Officer  
E. Ray Kemp  
Vice Chairman  
Chief Administrative Officer  
William Dillard, II  
President  
Chief Operating Officer  
Alex Dillard  
Executive Vice President  
Mike Dillard  
Executive Vice President  
J. K. Jameson, III  
Vice President  
Secretary-Treasurer  
W. R. Appleby  
Jan E. Bolton  
Michael Bowen  
Donald C. Bradley  
Joe Brennan  
G. Kent Burnett  
A. B. Cannon  
Wynelle Chapman  
Drue Corbusier  
William Cummins  
James E. Darr, Jr.  
David M. Doub  
Charles E. Franzke  
John A. Franzke  
T. R. Gastman  
Bernie Goldstein  
Kathryn Mayes Hawker  
Charles A. Hobbs  
Louis V. McGaugh  
Michael S. McNiff  
Harry D. Passow  
C. F. Plunkett  
M. E. Ritchie, Jr.  
Dick Roberds  
J. W. Sherburne  
Burt Squires  
Joseph W. Story  
J. B. Wilson  
Vice Presidents

## Operating Divisions

**FORT WORTH**  
J. W. Sherburne  
Chairman  
W. R. Appleby  
President  
Drue Corbusier  
Vice President-Merchandising  
William Cummins  
Vice President-Merchandising  
James R. Gibson  
Vice President-Stores  
Roy J. Grimes  
Vice President-Stores  
Ken Moore  
Vice President-Stores  
H. Gene Baker  
Vice President-Sales Promotion  
**LITTLE ROCK**  
Mike Dillard  
Chairman  
John A. Franzke  
President  
David M. Doub  
Vice President-Merchandising  
Burt Squires  
Vice President-Merchandising  
Nelson Hensley  
Vice President-Operations  
Ken Eaton  
Vice President-Sales Promotion  
**PHOENIX**  
G. Kent Burnett  
Chairman  
Bernie Goldstein  
President  
Joe Brennan  
Vice President-Merchandising  
Michael S. McNiff  
Vice President-Merchandising  
Bonnie Burton  
Vice President-Sales Promotion

## Operating Divisions

**ST. LOUIS**  
T. R. Gastman  
Chairman  
Harry D. Passow  
President  
Kathryn Mayes Hawker  
Vice President-Merchandising  
Richard Eagan  
Vice President-Stores  
Ted Westmeyer  
Vice President-Sales Promotion  
**SAN ANTONIO**  
Charles E. Franzke  
Chairman  
J. B. Wilson  
President  
Wynelle Chapman  
Vice President-Merchandising  
Dick Roberds  
Vice President-Merchandising  
Gat Lemoine  
Vice President-Stores  
Jim Schatz  
Vice President-Stores  
Bill Warner  
Vice President-Sales Promotion  
**Board of Directors**  
William Dillard  
Chairman of the Board  
Clarence Barksdale  
Chairman of the Board and  
Chief Executive Officer  
Centerre Bank N.A.  
St. Louis, Missouri  
James D. Berry  
Vice Chairman  
Directors Executive Committee  
RepublicBank Corporation  
Dallas, Texas  
Calvin N. Clyde, Jr.  
President and  
General Manager  
T. B. Butler Publishing Co., Inc  
Tyler, Texas

## Board of Directors

Will D. Davis  
Partner, Heath, Davis & McCalla  
Attorneys  
Austin, Texas  
Alex Dillard  
Executive Vice President  
Mike Dillard  
Executive Vice President  
William Dillard, II  
President  
Dr. A. C. R. Dreesmann  
Chairman of the Board and  
Chief Executive Officer  
Vendex International N.V.  
Amsterdam, The Netherlands  
William B. Harrison, Jr.  
Executive Vice President  
Chemical Bank  
New York, New York  
John H. Johnson  
President and Publisher  
Johnson Publishing  
Company, Inc.  
Chicago, Illinois  
G. Larry Kelley  
Chairman of the Board and  
Chief Executive Officer  
Pickens-Bond Construction Co.  
Little Rock, Arkansas  
E. Ray Kemp  
Vice Chairman of the Board  
Anne M. McCarthy  
Retired Vice President-  
Investments  
New England Mutual Life  
Insurance Co.  
Boston, Massachusetts  
John K. Riedy  
Retired Chairman of the Board  
INTERCO, Inc.  
St. Louis, Missouri  
B. Finley Vinson  
Chairman Emeritus  
First Commercial Corp  
Little Rock, Arkansas



Padre Staples Mall  
Corpus Christi, Texas

## ARIZONA

### Flagstaff

**Flagstaff Mall** (Oct., 1986), 70,000 Sq. Ft.  
With Penney's and Sears

### Phoenix Area

**Camelview Plaza** (Nov., 1986), and  
**Fashion Square** (Sept., 1984), 190,000 Sq. Ft.  
With Bullock's and Goldwaters  
**Christown** (June, 1985), 132,000 Sq. Ft.  
With Broadway, Penney's and Ward's  
**Fiesta Mall** (Sept., 1984), 125,000 Sq. Ft.  
With Sears, Broadway and Goldwaters  
**Metro Center** (Sept., 1984), 182,000 Sq. Ft.  
With Sears, Broadway, Goldwaters and Joske's  
**Paradise Valley** (Sept., 1984), 125,000 Sq. Ft.  
With Penney's and Goldwaters  
**Park Central** (Sept., 1984), 166,000 Sq. Ft.  
With Penney's and Goldwaters  
**Thomas Mall** (Sept., 1984), 190,000 Sq. Ft.  
With Ward's  
**Westridge Mall** (Sept., 1984), 124,000 Sq. Ft.  
With Penney's and Sears

### Tucson

**Park Mall** (Sept., 1984), 98,000 Sq. Ft.  
With Sears and Broadway  
**Tucson Mall** (Sept., 1984), 119,000 Sq. Ft.  
With Penney's, Sears, Mervyn's and Broadway

## ARKANSAS

### Fayetteville-Springdale

**Northwest Arkansas Plaza** (Mar., 1972),  
116,000 Sq. Ft.  
With Penney's and Sears

### Fort Smith

**Central Mall** (Mar., 1985), 115,000 Sq. Ft.  
With Penney's and Sears

### Hot Springs

**Hot Springs Mall** (Feb., 1982), 70,000 Sq. Ft.  
With Penney's and Sears

### Jonesboro

**Indian Mall** (Oct., 1967), 75,000 Sq. Ft.  
With Penney's and Sears

### Little Rock

**Downtown** (1963), 40,000 Sq. Ft.  
**Park Plaza** (Mar., 1965), 196,000 Sq. Ft.

### North Little Rock

**McCain Mall** (Sept., 1972), 225,000 Sq. Ft.  
With Penney's and Sears

### Pine Bluff

**The Pines** (July, 1986), 100,000 Sq. Ft.  
With Penney's



## KANSAS

### Hutchinson

**Hutchinson Mall** (Mar., 1985), 70,000 Sq. Ft.  
With Penney's

### Topeka

**Downtown** (Mar., 1986), 125,000 Sq. Ft.

### Wichita

**Downtown** (Mar., 1986), 160,000 Sq. Ft.  
**Towne East Mall** (Aug., 1975), 180,000 Sq. Ft.  
With Penney's and Sears  
**Towne West Mall** (Mar., 1981), 160,000 Sq. Ft.  
With Penney's and Ward's

## LOUISIANA

### Alexandria

**Alexandria Mall** (Aug., 1986), 100,000 Sq. Ft.  
With Penney's, Sears and Mervyn's

### Baton Rouge

**Cortana Mall** (Sept., 1976), 180,000 Sq. Ft.  
With Penney's, Sears and Goudchaux

### Bossier City (Shreveport)

**Pierre Bossier Mall** (Aug., 1982),  
125,000 Sq. Ft.  
With Penney's and Sears

### Monroe

**Pecanland Mall** (July, 1985), 122,000 Sq. Ft.  
With McRae's and Penney's

### Shreveport

**Shreve City Center** (Oct., 1970), 114,000 Sq. Ft.  
With Penney's  
**South Park Mall** (July, 1975), 180,000 Sq. Ft.  
With Penney's and Ward's



 Palm-Station Mall  
CORPORATE TRAVEL

# Stores in Operation—1986

## MISSOURI

### St. Louis Area

**Chesterfield Mall** (Jan., 1984), 198,000 Sq. Ft.  
With Sears and Famous-Barr

**Crestwood Plaza** (Jan., 1984), 170,000 Sq. Ft.  
With Sears and Famous-Barr

**Jamestown Mall** (Jan., 1984), 223,000 Sq. Ft.  
With Sears

**Northwest Plaza** (Jan., 1984), 169,000 Sq. Ft.  
With Penney's, Sears and Famous-Barr

**South County Center** (Jan., 1984),  
141,000 Sq. Ft.  
With Penney's and Famous-Barr

**St. Clair Square (Illinois)** (Jan., 1984),  
175,000 Sq. Ft.  
With Penney's, Sears and Famous-Barr

**St. Louis Centre** (Aug., 1985), 204,000 Sq. Ft.  
With Famous-Barr

**St. Louis Galleria** (Jan., 1984), 245,000 Sq. Ft.

### Columbia

**Columbia Mall** (Oct., 1985), 100,000 Sq. Ft.  
With Penney's, Sears and Target

### Jefferson City

**Capitol Mall** (Mar., 1985), 70,000 Sq. Ft.  
With Penney's and Sears

### Kansas City Area

**Antioch Shopping Center** (Mar., 1986),  
79,000 Sq. Ft.  
With Sears

**Bannister Mall** (Mar., 1986), 165,000 Sq. Ft.  
With Penney's, Sears and Jones Store Co.

**Independence Plaza** (Jan., 1984),  
182,000 Sq. Ft.  
With Sears and Jones Store Co.

**Indian Springs Shopping Center (Kansas)**  
(Mar., 1986), 97,000 Sq. Ft.  
With Penney's and Ward's

**Metro North Mall** (Mar., 1986), 161,000 Sq. Ft.  
With Penney's, Ward's and Jones Store Co.

**Mission Shopping Center (Kansas)**  
(Mar., 1986), 120,000 Sq. Ft.

**Country Club Plaza** (Mar., 1986), 72,000 Sq. Ft.  
With Bonwit-Teller and Sak's Fifth Avenue

**Oak Park Center (Kansas)**  
(Jan., 1984 and Mar., 1986), 380,000 Sq. Ft.  
With Penney's and Ward's

**Ward Parkway Center** (Jan., 1984),  
202,000 Sq. Ft.  
With Penney's and Ward's

### Springfield

**Battlefield Mall** (July, 1982), 125,000 Sq. Ft.  
With Penney's, Sears, Famous-Barr and Ward's

## NEVADA

### Las Vegas

**Boulevard Mall** (Sept., 1984), 41,000 Sq. Ft.  
With Penney's, Sears and Broadway

**Fashion Show Mall** (Sept., 1984), 126,000 Sq. Ft.  
With Bullock's, Goldwaters, Neiman-Marcus  
and Sak's Fifth Avenue

**Meadows Center** (Sept., 1984), 125,000 Sq. Ft.  
With Penney's, Sears and Broadway

## NEW MEXICO

### Albuquerque

**Winrock Center** (Nov., 1972), 169,000 Sq. Ft.  
With Penney's and Ward's

### Farmington

**Animas Valley Mall** (Oct., 1982), 70,000 Sq. Ft.  
With Penney's and Sears

### Las Cruces

**Mesilla Valley Mall** (July, 1981), 70,000 Sq. Ft.  
With Penney's and Sears

### Sante Fe

**Villa Linda Mall** (July, 1985), 70,000 Sq. Ft.  
With Mervyn's and Penney's

## OKLAHOMA

### Bartlesville

**Washington Park Mall** (Aug., 1984),  
70,000 Sq. Ft.  
With Penney's and Sears

### Enid

**Oakwood Mall** (Feb., 1984), 70,000 Sq. Ft.  
With Penney's

### Lawton

**Central Mall** (Mar., 1980), 100,000 Sq. Ft.  
With Penney's and Sears

### Midwest City (Oklahoma City)

**Heritage Park Mall** (Oct., 1978), 100,000 Sq. Ft.  
With Sears and Ward's

### Norman

**Sooner Fashion Mall** (Aug., 1976),  
67,000 Sq. Ft.  
With Penney's and Sears

## Oklahoma City

**Crossroads Mall** (Oct., 1973), 193,000 Sq. Ft.  
With Penney's and Ward's

**Penn Square** (Sept., 1984), 127,000 Sq. Ft.  
With Ward's

**Quail Springs Mall** (Oct., 1980), 204,000 Sq. Ft.  
With Penney's and Sears

**Shepherd Mall** (Sept., 1967), 160,000 Sq. Ft.  
With Penney's adjacent to Sears

## Tulsa

**Eastland Mall** (Aug., 1986), 160,000 Sq. Ft.  
With Penney's and Mervyn's

**Kensington Galleria** (Mar., 1986), 60,000 Sq. Ft.

**Promenade** (Mar., 1965), 158,000 Sq. Ft.  
With Penney's and Mervyn's

**Utica Square** (Sept., 1984), 76,000 Sq. Ft.

**Woodland Hills Mall** (Oct., 1976), 180,000 Sq. Ft.  
With Penney's, Sears and Sanger-Harris

## TENNESSEE

### Memphis

**Mall of Memphis** (Oct., 1981), 204,000 Sq. Ft.  
With Penney's and Thalhimer's

**Poplar Plaza Shopping Center** (Mar., 1982),  
120,000 Sq. Ft.  
With Penney's

**Raleigh Springs Mall** (Mar., 1982),  
149,000 Sq. Ft.  
With Penney's, Sears and Goldsmith's

## TEXAS

### Abilene

**Mall of Abilene** (Mar., 1979), 100,000 Sq. Ft.  
With Penney's and Sears

### Amarillo

**Westgate Mall** (Oct., 1982), 160,000 Sq. Ft.  
With Sears and Mervyn's

### Austin

**Barton Creek Square** (Mar., 1982),  
204,000 Sq. Ft.  
With Penney's, Sears, Foley's and Ward's

**Hancock Shopping Center** (Feb., 1964),  
88,000 Sq. Ft.  
With Sears



St. Louis, Missouri  
St. Louis, Missouri

# Stores in Operation—1986

## TEXAS (continued)

### Beaumont

**Parkdale Mall** (Feb., 1986), 160,000 Sq. Ft.  
With Penney's, Sears, Ward's and Joske's

### Brownsville

**Amigoland Mall** (Nov., 1973), 107,000 Sq. Ft.  
With Penney's and Ward's

### Bryan-College Station

**Post Oak Mall** (Mar., 1982), 100,000 Sq. Ft.  
With Sears and Foley's

### Corpus Christi

**Padre Staples Mall** (Aug., 1986),  
200,000 Sq. Ft.  
With Penney's and Foley's

### Denton

**Golden Triangle Mall** (Sept., 1980),  
100,000 Sq. Ft.  
With Penney's, Sears and Ward's

### El Paso

**Cielo Vista Mall** (Nov., 1974), 193,000 Sq. Ft.  
With Penney's, Sears, Joske's and Ward's

### Harlingen

**Valle Vista Mall** (Aug., 1983), 100,000 Sq. Ft.  
With Sears

### Killeen

**Killeen Mall** (July, 1981), 70,000 Sq. Ft.  
With Penney's and Sears

### Laredo

**Mall Del Norte** (Sept., 1977), 88,000 Sq. Ft.  
With Sears and Ward's

### Longview

**Longview Mall** (Aug., 1978), 100,000 Sq. Ft.  
With Penney's and Sears

### Lubbock

**South Plains Mall** (July, 1972 and July, 1986),  
256,000 Sq. Ft.  
With Penney's and Sears

### McAllen

**La Plaza Mall** (Mar., 1978), 140,000 Sq. Ft.  
With Penney's, Sears and Jones & Jones

### Midland

**Midland Park Mall** (July, 1980), 100,000 Sq. Ft.  
With Penney's and Sears

### Odessa

**Permian Mall** (Feb., 1980), 100,000 Sq. Ft.  
With Penney's and Sears

### Port Arthur

**Central Mall** (July, 1986), 60,000 Sq. Ft.  
With Penney's and Sears

### San Angelo

**Sunset Mall** (July, 1986), 48,000 Sq. Ft.  
With Penney's and Sears

### San Antonio

**Central Park Mall** (Mar., 1968), 140,000 Sq. Ft.  
With Sears

**Ingram Park Mall** (Oct., 1979), 180,000 Sq. Ft.  
With Penney's, Sears, Joske's and Foley's

**Military Drive Plaza** (Aug., 1968), 82,000 Sq. Ft.  
With Sears

**Windsor Park Mall** (July, 1976), 180,000 Sq. Ft.  
With Penney's, Joske's and Ward's

### Sherman

**Midway Mall** (Mar., 1986), 70,000 Sq. Ft.  
With Sears and Mervyn's

### Temple

**Temple Mall** (Aug., 1976), 67,000 Sq. Ft.  
With Penney's and Sears

### Texarkana

**Central Mall** (Aug., 1978), 100,000 Sq. Ft.  
With Penney's and Sears

### Tyler

**Broadway Square** (Feb., 1974), 107,000 Sq. Ft.  
With Penney's and Sears

### Victoria

**Victoria Mall** (Mar., 1981), 70,000 Sq. Ft.  
With Sears

### Waco

**Richland Fashion Mall** (Mar., 1980),  
100,000 Sq. Ft.  
With Penney's and Sears

### Wichita Falls

**Sikes Senter** (Oct., 1974), 110,000 Sq. Ft.  
With Penney's

## DALLAS FORT WORTH METROPOLIX

### Arlington

**Forum 303 Mall** (Mar., 1974), 170,000 Sq. Ft.  
With Ward's

### Dallas

**Valley View Shopping Center** (Oct., 1979),  
300,000 Sq. Ft.  
With Sears, Sanger-Harris and Bloomingdale's

### Fort Worth

**Ridgmar Mall** (Feb., 1976), 204,000 Sq. Ft.  
With Penney's, Sears and Neiman-Marcus

**Seminary South Shopping Center** (Oct., 1978),  
127,000 Sq. Ft.  
With Penney's and Sears

**Tandy Center** (Oct., 1977), 106,000 Sq. Ft.

### Hurst

**Northeast Mall** (Mar., 1974), 205,000 Sq. Ft.  
With Penney's, Sears and Ward's

### Irving (Dallas)

**Irving Mall** (Mar., 1984), 130,000 Sq. Ft.  
With Penney's, Sears, Joske's and Mervyn's

### Mesquite (Dallas)

**Town East Shopping Center** (Aug., 1982),  
190,000 Sq. Ft.  
With Sears, Sanger-Harris and Joske's

### Plano (Dallas)

**Collin Creek Mall** (July, 1981), 195,000 Sq. Ft.  
With Penney's, Sears, Lord & Taylor and  
Sanger-Harris

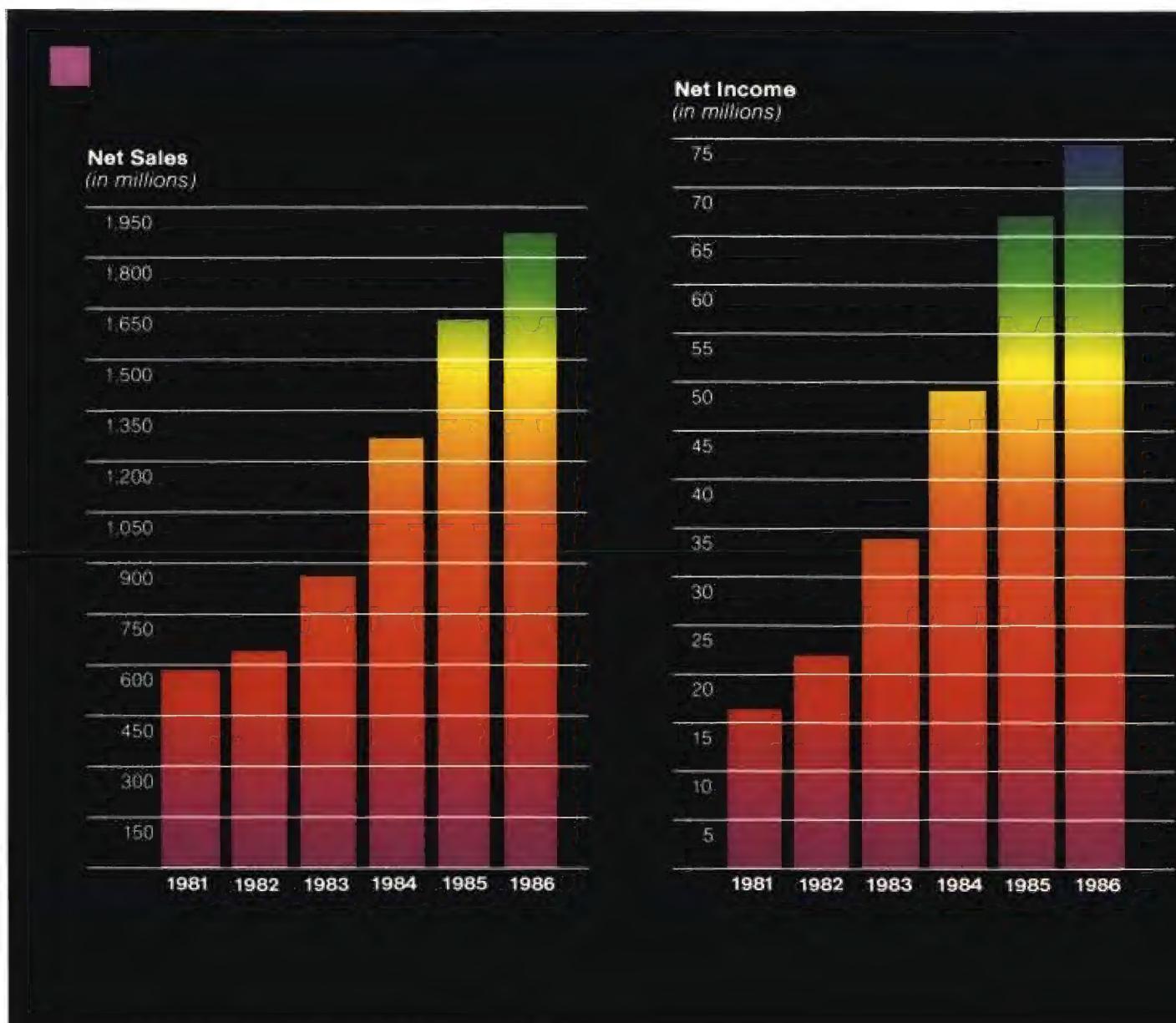
### Richardson (Dallas)

**Richardson Square** (Oct., 1979), 160,000 Sq. Ft.  
With Sears, Joske's and Ward's





## 1986 Financial Highlights





1986 Financial Report



# Financial Review

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## Table of Selected Financial Data

Dillard Department Stores, Inc.

(Dollars in thousands  
except per share data)

	1986	1985	1984 <sup>1</sup>	1983	1982	1981
Net Sales .....	<b>\$ 1,851,423</b>	\$ 1,601,357	\$ 1,277,280	\$ 847,485	\$ 711,323	\$ 592,867
Percent Increase .....	<b>15.6</b>	25.4	50.7	19.1	20.0	25.9
Cost of Sales .....	<b>1,179,157</b>	1,016,199	811,522	532,058	444,916	374,247
Percent of Sales .....	<b>63.7</b>	63.5	63.5	62.8	62.5	63.1
Interest and Debt Expense .....	<b>48,007</b>	45,022	37,720	23,067	26,668	25,223
Income Before Taxes .....	<b>131,858</b>	114,903	87,608	59,939	35,256	27,259
Income Taxes .....	<b>57,400</b>	48,000	38,050	25,800	13,300	11,000
Net Income .....	<b>74,458</b>	66,903	49,558	34,139	21,956	16,259
Per Common Share						
Net Income .....	<b>2.35</b>	2.29	1.82	1.38	.93	.69
Dividends .....	<b>.12</b>	.105	.0875	.075	.05	.05
Book Value .....	<b>17.31</b>	12.42	10.24	7.36	5.81	4.94
Average Number of Shares						
Outstanding .....	<b>31,692,698</b>	29,206,490	27,314,576	24,692,436	23,533,912	23,490,064
Accounts Receivable — Total .....	<b>472,639</b>	387,612	333,830	195,274	161,490	126,083
Merchandise Inventories .....	<b>385,509</b>	305,781	252,239	150,829	119,348	99,291
Property and Equipment .....	<b>513,421</b>	394,189	325,736	182,921	169,910	153,502
Total Assets .....	<b>1,213,355</b>	861,601	748,187	451,110	372,486	343,954
Long-Term Debt .....	<b>186,975</b>	55,680	71,835	13,690	26,645	48,500
Mortgage Debt .....	<b>113,344</b>	130,390	122,826	79,344	80,391	65,208
Capitalized Lease Obligations .....	<b>13,695</b>	14,676	15,575	16,411	17,330	18,291
Deferred Income Taxes — Total ...	<b>116,549</b>	88,649	72,778	49,738	41,050	31,550
Stockholders' Equity .....	<b>556,617</b>	362,333	298,353	185,553	137,291	116,403
Number of Employees —						
Average .....	<b>18,412</b>	16,010	12,965	8,940	8,280	7,050
Number of Stores						
Opened .....	<b>8</b>	8	3	1	11	6
Acquired .....	<b>11</b>	—	25	—	—	—
Closed .....	<b>5</b>	—	1	—	2	—
Total — End of Year .....	<b>115</b>	101	93	66	65	56

<sup>1</sup>1984 — 53 Weeks



## Management's Discussion and Analysis of Financial Condition and Results of Operation

Dillard Department Stores, Inc.

### Sales

Sales for 1986 were 15.6% greater than the prior year. The sales increase for the past five years has been:

	1986	1985	1984	1983	1982
Sales Increase .....	<b>15.6%</b>	25.4%	50.7%	19.1%	20.0%

Store for store sales increase by quarter for the past five years as follows:

	1986	1985	1984	1983	1982
First Quarter .....	<b>4.3%</b>	14.7%	19.4%	3.2%	10.3%
Second Quarter .....	<b>2.2</b>	14.9	14.4	10.7	7.2
Third Quarter .....	<b>4.4</b>	10.1	11.4	19.3	1.4
Fourth Quarter .....	<b>4.3</b>	11.1	15.1	22.3	1.8
Year .....	<b>3.9</b>	12.3	14.8	15.3	4.5

The sales mix for the last five years by category and percent of total sales has been:

Owned Departments	1986	1985	1984	1983	1982
Women's Clothing & Accessories .....	<b>44.4%</b>	42.3%	39.9%	37.7%	36.6%
Juniors' & Children's Clothing & Accessories .....	<b>12.7</b>	12.9	13.2	14.3	14.5
Men's Clothing & Accessories .....	<b>17.1</b>	16.6	16.3	15.7	15.4
Home Accessories .....	<b>11.3</b>	12.6	13.8	15.2	15.3
Furniture, TV & Appliances .....	<b>6.5</b>	7.1	7.6	8.1	8.5
	<b>92.0</b>	91.5	90.8	91.0	90.3
Leased Departments					
Shoes .....	<b>4.3</b>	4.2	4.4	4.6	5.0
Fine Jewelry .....	<b>2.4</b>	2.3	2.6	2.7	2.7
Other .....	<b>1.3</b>	2.0	2.2	1.7	2.0
	<b>8.0</b>	8.5	9.2	9.0	9.7
Total .....	<b>100.0%</b>	100.0%	100.0%	100.0%	100.0%

At year end there were 115 stores in operation. Gross square footage of these stores is 15,588,000. Annual gross square footage of stores in operation at year end and approximate sales per gross square foot for the past five years are:

	1986	1985	1984	1983	1982
Sales (000) .....	<b>\$1,851,423</b>	\$1,601,357	\$1,277,280	\$847,485	\$711,323
Gross Square Footage (000) .....	<b>15,588</b>	13,551	12,532	8,471	8,350
Sales per Square Foot .....	<b>\$119</b>	\$118	\$102	\$100	\$85

### Cost of Sales

Cost of sales for the last five years has been:

	1986	1985	1984	1983	1982
Cost of Sales .....	<b>63.7%</b>	63.5%	63.5%	62.8%	62.5%

During 1986, the cost of sales percentage includes a credit of \$5,100,000, which was the LIFO adjustment for the year. 1985 included a credit of \$400,000; 1984 included a credit of \$500,000. In 1983 there was a charge of \$1,400,000 and in 1982 a charge of \$400,000. At January 31, 1987, the LIFO reserve was \$2,500,000.



# Management's Discussion and Analysis of Financial Condition and Results of Operation

Dillard Department Stores, Inc.  
DALLAS, TEXAS

## Expenses

Expenses as a percent of sales have varied for the past five years as follows:

	1986	1985	1984	1983	1982
Advertising, Selling, Administrative & General .....	<b>25.7%</b>	25.7%	25.5%	25.8%	26.8%
Depreciation & Amortization .....	<b>2.8</b>	2.5	2.4	2.6	2.6
Rentals .....	<b>2.0</b>	2.0	2.0	2.4	2.5
Interest & Debt Expense .....	<b>2.6</b>	2.8	3.0	2.7	3.7

## Real Estate

At year end the Company owned 54 store buildings:

McCain Mall North Little Rock	Hot Springs Mall Hot Springs	Metro Center Phoenix	Ingram Park Mall San Antonio
Winrock Center Albuquerque	Post Oak Mall Bryan-College Station	Paradise Valley Phoenix	Richardson Square Richardson
Crossroads Mall Oklahoma City	Barton Creek Square Austin	Westridge Mall Phoenix	Parkdale Mall Beaumont
South Park Mall Shreveport	Town East Shopping Center Dallas	Tucson Mall Tucson	Bannister Mall Kansas City
Ridgmar Mall Fort Worth	Chesterfield Mall St. Louis	Fashion Show Mall Las Vegas	Indian Springs Center Kansas City
Windsor Park Mall San Antonio	Jamestown Mall St. Louis	Meadows Center Las Vegas	Metro North Mall Kansas City
Cortana Mall Baton Rouge	South County Center St. Louis	Capitol Mall Jefferson City	Mission Shopping Center Kansas City
Woodland Hills Tulsa	St. Clair Square Fairview Heights (St. Louis)	Central Mall Fort Smith	Oak Park Center Kansas City
Northeast Mall Fort Worth	St. Louis Galleria St. Louis	Christown Mall Phoenix	Midway Mall Sherman
Forum 303 Arlington	Independence Plaza Kansas City	Pecanland Mall Monroe	The Pines Mall Pine Bluff
Heritage Park Mall Midwest City	Ward Parkway Center Kansas City	Villa Linda Mall Santa Fe	Alexandria Mall Alexandria
Valley View Shopping Center Dallas	Irving Mall Dallas	Columbia Mall Columbia	Flagstaff Mall Flagstaff
Quail Springs Mall Oklahoma City	Washington Park Mall Bartlesville	Mall of Abilene Abilene	Eastland Mall Tulsa
Mall of Memphis Memphis	Fiesta Mall Phoenix		

The square footage of company owned store buildings is 8,168,000.

Buildings now leased by the Company on which purchase options exist are:

Sooner Fashion Mall Norman	Cielo Vista Mall El Paso
Westgate Mall Amarillo	Broadway Square Tyler



## Management's Discussion and Analysis of Financial Condition and Results of Operation

Dillard Department Stores, Inc.  
1986-1987

### Trade Accounts Receivable

The year to year percentage growth in sales and accounts receivable has been:

	1986	1985	1984	1983	1982
Sales .....	<b>15.6%</b>	25.4%	50.7%	19.1%	20.0%
Accounts Receivable .....	<b>21.9</b>	16.1	70.9	20.9	28.1

The five year compound annual growth rate has been 25.6% for sales and 30.3% for receivables.

The composition of total sales for the past five years has been:

	1986	1985	1984	1983	1982
Dillard's Charge .....	<b>51.4%</b>	50.3%	50.4%	48.0%	48.4%
Outside Credit Cards					
Visa, MasterCard, American Express, Diners .....	<b>13.5</b>	13.4	12.2	11.1	9.8
Cash .....	<b>35.1</b>	36.3	37.4	40.9	41.8
	<b>100.0%</b>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

### Liquidity and Source of Funds

During the year several long-term financing transactions were accomplished. The proceeds were used to fund acquisitions and for general corporate purposes. They were:

April	Common stock offering of 2,949,121 Class A shares .....	\$123,492,000
April	8.375% Notes due April 15, 1996 .....	50,000,000
November	8.125% Notes due November 1, 1993 .....	50,000,000
January	8.0% Notes due January 15, 1999 .....	50,000,000
January	7.375% Notes of Dillard Investment Co., Inc. due January 15, 1992 .....	50,000,000

Substantially all of the accounts receivable of the Company are sold to Dillard Investment Co., Inc. (DIC), a wholly owned unconsolidated finance subsidiary, which is obligated to purchase the receivables. At year end, DIC had lines of credit or borrowing arrangements totalling \$360,000,000 to fund the purchase of the accounts receivable. DIC is required to advance to the Company, at the Company's request, an amount equal to 95% of the accounts receivable purchased. The arrangements between the Company and DIC require that the Company maintain an equity within DIC equal to 15% of the total borrowings by DIC. For the past several years, DIC has sold commercial paper in the public market. At year end commercial paper outstanding was \$111,370,000.





## Management's Discussion and Analysis of Financial Condition and Results of Operation

Dillard Department Stores, Inc.  
(continued)

### **Impact of Tax Reform**

The enactment of the Tax Reform Act of 1986 affected and will continue to affect the Company in several areas.

The impact of the repeal of the investment tax credit (ITC) was offset to some degree in the Company's current fiscal year by the ITC transition rules. The current year difference in ITC under the prior law and ITC under the transition rules was not material. This aspect of the Act will lessen the increase in future cash flows that would otherwise result from lower tax rates. The combination of lower tax rates, repeal of ITC and lengthening of depreciation lives will increase the real cost of future capital expenditures. However, this will not have a significant effect on the Company's decisions to build or remodel stores.

The provision in the new tax law requiring capitalization of certain buying and merchandising costs will increase the future taxable income of the Company. Also, the new tax law requires the use of the direct charge off method for bad debt deductions rather than the reserve method currently being used by the Company. Neither provision is expected to have a material effect on the cash flow of the Company.

Currently, the Company reports taxable income from charge sales on the installment method. Under the new tax law, this method of reporting will be phased out over four years resulting in increased tax payments. However, the Company has sufficient credit facilities available to cover the increased cash flow needed to liquidate the amount due.

Overall, management feels that the positive impact of the new reduced rates will more than offset the negative effects of the changes in the tax law on current taxes payable.

### **Impact of Inflation and Changing Prices**

Although inflation has slowed in recent years, it is still a factor in our economy and the Company continues to seek ways to cope with its impact. Operationally, the Company has concentrated on productivity improvements in pricing, expense control and asset management. Financial reporting systems are present to provide accurate assessment of real operating performance.

The Company uses the LIFO method of accounting for its merchandise inventories. Under this method, the cost of goods sold reported in the financial statements approximates current costs and thus reduces the distortion in reported income due to the increasing costs associated with inflation. Consequently, the historical financial statements already provide in real terms a cost to replace the capital invested in inventories each year.

The charges to operations for depreciation expense represent the allocation of historical costs incurred over past years and are significantly less than if they were based on the cost of replacing current store and warehouse facilities. Assets acquired in prior years will be replaced at higher costs but this will take place over many years. These new assets will result in higher depreciation charges; but in many cases there will be operating cost savings as well.

Present tax laws do not allow deductions for adjustments for the impact of inflation. Thus, taxes are levied on the Company at rates which, in real terms, exceed the established statutory rates. In general, during periods of inflation, this tax policy results in a tax on shareholders' investment in the Company.



## Auditors' Report

Stockholders and Board of Directors  
Dillard Department Stores, Inc.  
Little Rock, Arkansas

We have examined the consolidated balance sheets of Dillard Department Stores, Inc. and consolidated subsidiary as of January 31, 1987 and February 1, 1986, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended January 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Dillard Department Stores, Inc. and consolidated subsidiary at January 31, 1987 and February 1, 1986, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended January 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.



*Ernst & Whitney*

Little Rock, Arkansas  
March 12, 1987

**Consolidated Balance Sheets**  
Dillard Department Stores, Inc.

(In thousands of dollars)

	<b>January 31 1987</b>	February 1 1986
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and short-term investments .....	\$ 22,666	\$ 20,856
Trade accounts receivable—Note C .....	28,821	23,698
Receivable from Dillard Investment Co., Inc. .....	195,745	56,972
Merchandise inventories—Note A .....	385,509	305,781
Supplies and prepaid expenses .....	3,027	1,555
TOTAL CURRENT ASSETS	<b>635,768</b>	408,862
<b>INVESTMENTS AND OTHER ASSETS</b>		
Equity in net assets of Dillard Investment Co., Inc. ....	50,130	41,284
Other .....	4,091	6,449
54,221	<b>47,733</b>	
<b>PROPERTY AND EQUIPMENT—Notes D and J</b>		
Land and land improvements .....	18,708	15,591
Building and leasehold improvements .....	282,151	200,468
Furniture, fixtures and equipment .....	367,540	295,451
Buildings under construction .....	10,972	13,949
Less accumulated depreciation and amortization .....	(165,950)	(131,270)
513,421	<b>394,189</b>	
<b>BUILDINGS UNDER CAPITAL LEASES, less amortization</b>		
(1987 — \$12,767; 1986 — \$11,895)—Note I .....	9,945	10,817
<b>\$1,213,355</b>	<b>\$861,601</b>	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Trade accounts payable and accrued expenses — Note E .....	\$ 178,555	\$164,367
Federal and state income taxes .....	24,572	25,341
Deferred income taxes .....	62,956	51,770
Current portion of long-term debt .....	22,067	19,266
Current portion of capital lease obligations .....	981	899
TOTAL CURRENT LIABILITIES	<b>289,131</b>	261,643
<b>LONG-TERM DEBT, less current portion — Note D</b>		
Notes payable .....	186,975	55,680
Real estate and mortgage notes .....	113,344	130,390
300,319	<b>186,070</b>	
<b>CAPITAL LEASE OBLIGATIONS, less current portion — Note I</b>	<b>13,695</b>	14,676
<b>DEFERRED INCOME TAXES</b>	<b>53,593</b>	36,879
<b>STOCKHOLDERS' EQUITY — Notes D, G and H</b>		
Preferred stock .....	440	440
Common stock .....	40,329	36,575
Additional paid-in capital .....	219,666	99,774
Retained earnings .....	296,485	225,812
Less treasury stock, at cost .....	(303)	(268)
556,617	<b>362,333</b>	
<b>OPERATING LEASES AND COMMITMENTS — Note J</b>	<b>\$1,213,355</b>	<b>\$861,601</b>

See notes to consolidated financial statements.



# Consolidated Statements of Income and Retained Earnings

Dillard Department Stores, Inc.

(In thousands of dollars except per share data)	Year Ended		
	January 31 1987	February 1 1986	February 2 1985
Net sales, including sales of leased departments .....	<b>\$1,851,423</b>	\$1,601,357	\$1,277,280
Service charges, interest and other .....	<b>71,664</b>	59,506	40,924
	<b>1,923,087</b>	1,660,863	1,318,204
Costs and expenses:			
Cost of sales .....	<b>1,179,157</b>	1,016,199	811,522
Advertising, selling, administrative and general expenses .....	<b>476,642</b>	412,222	325,624
Depreciation and amortization .....	<b>51,295</b>	39,917	30,435
Rentals — Note J .....	<b>36,128</b>	32,600	25,295
Interest and debt expense — Note D .....	<b>48,007</b>	45,022	37,720
	<b>1,791,229</b>	1,545,960	1,230,596
INCOME BEFORE INCOME TAXES	<b>131,858</b>	114,903	87,608
Federal and state income taxes — Note F .....	<b>57,400</b>	48,000	38,050
NET INCOME	<b>74,458</b>	66,903	49,558
Retained earnings at beginning of year .....	<b>225,812</b>	161,986	114,824
	<b>300,270</b>	228,889	164,382
Cash dividends:			
Preferred stock, \$5 a share .....	<b>22</b>	22	22
Common stock, 1987 — \$.12 a share; 1986 — \$.105 a share; 1985 — \$.0875 a share .....	<b>3,763</b>	3,055	2,374
	<b>3,785</b>	3,077	2,396
RETAINED EARNINGS AT END OF YEAR	<b>\$ 296,485</b>	\$ 225,812	\$ 161,986
Net income per common share .....	<b>\$2.35</b>	\$2.29	\$1.82

See notes to consolidated financial statements.

**Consolidated Statements  
of Changes in Financial Position**  
Dillard Department Stores, Inc.

<i>(In thousands of dollars)</i>	<i>Year Ended</i>		
	<b>January 31 1987</b>	<b>February 1 1986</b>	<b>February 2 1985</b>
<b>SOURCE OF FUNDS</b>			
Net income .....	<b>\$ 74,458</b>	\$ 66,903	\$ 49,558
Charges (credits) to income not affecting current working capital:			
Depreciation and amortization .....	<b>51,295</b>	39,917	30,435
Deferred income taxes .....	<b>16,714</b>	9,839	5,853
Net income of Dillard Investment Co., Inc. ....	<b>(3,846)</b>	(4,185)	(3,483)
TOTAL FROM OPERATIONS	<b>138,621</b>	112,474	82,363
Acquisition of businesses, net of working capital acquired of \$85,469 in 1987 and \$136,027 in 1985 — Note B:			
Long-term debt .....	<b>4,598</b>	—	100,000
Common stock issued or sold .....	<b>123,492</b>	—	65,473
Property and equipment .....	<b>(57,390)</b>	—	(100,316)
Other assets .....	<b>—</b>	—	(117)
Net carrying amount of property and equipment sold .....	<b>13,028</b>	14,052	7,325
Long-term borrowings .....	<b>158,859</b>	10,672	19,700
Exercise of stock options .....	<b>154</b>	154	165
Other — net .....	<b>2,358</b>	(3,084)	(2,182)
383,720	134,268	172,411	
<b>APPLICATION OF FUNDS</b>			
Additions to property and equipment .....	<b>125,293</b>	121,543	79,311
Payments and transfers to current maturities on long-term debt .....	<b>49,208</b>	19,263	18,073
Payments and transfers to current maturities on capital lease obligations .....	<b>981</b>	899	836
Additional investment in Dillard Investment Co., Inc. ....	<b>5,000</b>	1,650	10,525
Cash dividends .....	<b>3,785</b>	3,077	2,396
Purchase of treasury stock .....	<b>35</b>	—	—
184,302	146,432	111,141	
INCREASE (DECREASE) IN WORKING CAPITAL	<b>\$199,418</b>	\$(12,164)	\$ 61,270
<b>CHANGES IN COMPONENTS OF WORKING CAPITAL</b>			
Increase (decrease) in current assets:			
Cash and short-term investments .....	<b>\$ 1,810</b>	\$ (7,743)	\$ 5,451
Trade accounts receivable .....	<b>5,123</b>	(11,184)	15,973
Receivable from Dillard Investment Co., Inc. ....	<b>138,773</b>	2,637	15,336
Merchandise inventories .....	<b>79,728</b>	53,542	101,410
Supplies and prepaid expenses .....	<b>1,472</b>	(331)	733
226,906	36,921	138,903	
Increase (decrease) in current liabilities:			
Trade accounts payable and accrued expenses .....	<b>14,188</b>	30,265	44,614
Federal and state income taxes .....	<b>(769)</b>	11,528	1,847
Deferred income taxes .....	<b>11,186</b>	6,032	17,187
Current portion of long-term debt .....	<b>2,801</b>	1,197	14,069
Current portion of capital lease obligations .....	<b>82</b>	63	(84)
27,488	49,085	77,633	
INCREASE (DECREASE) IN WORKING CAPITAL	<b>\$199,418</b>	\$(12,164)	\$ 61,270

See notes to consolidated financial statements.

# Notes To Consolidated Financial Statements

Dillard Department Stores, Inc.

January 31, 1987

## Note A:

### Description of Business and Summary of Significant Accounting Policies

**Description of Business:** The Company operates retail department stores located primarily in the Southwest and Midwest. The Company's fiscal year ends on the Saturday nearest January 31. As a result, the years ended January 31, 1987 and February 1, 1986 contain 52 weeks and the year ended February 2, 1985 contains 53 weeks.

**Consolidation:** The accompanying consolidated financial statements include the Company and its wholly owned real estate subsidiary, Construction Developers, Inc. (which leases property principally to the Company). Intercompany accounts and transactions are eliminated upon consolidation.

Condensed financial information of the wholly owned unconsolidated finance subsidiary, Dillard Investment Co., Inc. (DIC), is presented below:

<i>(In thousands of dollars)</i>	<b>January 31 1987</b>	<b>February 1 1986</b>
<b>ASSETS</b>		
Cash .....	\$ 22,781	\$ 17,641
Accounts receivable purchased .....	<b>436,618</b>	357,914
Prepaid expenses .....	760	514
	<b>\$460,159</b>	\$376,069
<b>LIABILITIES AND EQUITY OF PARENT</b>		
Commercial paper and long-term debt .....	\$211,176	\$274,739
Payable to parent .....	<b>195,745</b>	56,972
Accrued liabilities .....	3,108	3,074
Equity of parent .....	<b>50,130</b>	41,284
	<b>\$460,159</b>	\$376,069

<i>(In thousands of dollars)</i>	<b>Year Ended</b>		
	<b>January 31 1987</b>	<b>February 1 1986</b>	<b>February 2 1985</b>
Interest income .....	\$26,362	\$25,339	\$21,046
Interest expense .....	<b>19,141</b>	17,500	14,563
Income before income taxes .....	7,126	7,755	6,452

Income before income taxes of DIC, all of which is derived from the Company, is deducted from interest expense in the accompanying income statements. The provision for income taxes of DIC is included in consolidated income tax expense.

Undistributed earnings of DIC were \$22,790,000 and \$18,944,000 as of January 31, 1987 and February 1, 1986, respectively, and are included in retained earnings of the Company as of those dates.

The amount of DIC's borrowing facilities to provide funds for the purchase of accounts receivable from the parent totalled \$360,000,000 at January 31, 1987, consisting of line of credit and commercial paper facilities of \$260,000,000 and other debt securities of \$100,000,000. At February 1, 1986, total borrowing facilities consisted of line of credit and commercial paper facilities of \$225,000,000 and other debt securities of \$50,000,000.

Net customer accounts receivable sold by the Company to DIC during the years ended January 31, 1987, February 1, 1986 and February 2, 1985 were approximately \$1,114,400,000, \$947,774,000 and \$764,528,000, respectively.

# Notes To Consolidated Financial Statements

(continued)

## Note A:

### Description of Business and Summary of Significant Accounting Policies

(continued)

**Revenues:** Retail sales are recorded on the accrual basis and include leased department sales of \$147,612,000, \$136,104,000 and \$117,783,000 for the years ended January 31, 1987, February 1, 1986 and February 2, 1985, respectively. Credit service charges are recorded monthly on the basis of billed customer account balances. Profits on installment sales are recognized in full for accounting purposes when the sales are recorded.

**Costs, Expenses, and Related Balance Sheet Accounts:** The retail last-in, first-out (LIFO) inventory method is used to value merchandise inventories, with such LIFO merchandise inventories not being carried in excess of current cost. Under this method, at January 31, 1987, February 1, 1986 and February 2, 1985, the LIFO cost of merchandise inventories was approximately \$2,500,000, \$7,600,000 and \$8,000,000, respectively, less than current cost.

Property and equipment owned by the Company is recorded at cost, which includes related interest costs incurred. Depreciation is computed by the straight-line method for financial reporting purposes. For tax reporting purposes, accelerated depreciation or cost recovery methods are used and the related deferred income taxes are included in noncurrent deferred federal income taxes on the balance sheet.

Properties leased by the Company under lease agreements which are determined to be capital leases are stated at an amount equal to the present value of the minimum lease payments during the lease term, less accumulated provision for amortization. The properties under capital leases are being amortized on the straight-line method over the related lease terms. The provision for amortization of leased properties is included in depreciation and amortization expense.

Pre-opening costs of new stores are expensed in the fourth quarter of the year such costs are incurred.

**Income Taxes:** For tax reporting purposes, the installment method of reporting profit on revolving credit and installment sales is used and the related deferred income taxes are classified as a current liability on the balance sheet. Investment tax credits are accounted for by the flow-through method.

**Earnings Per Common Share:** Earnings per share have been computed based on the weighted average of Class A and Class B Common shares outstanding, after deducting preferred dividend requirements and giving effect to outstanding stock options when material.

## Notes To Consolidated Financial Statements

(continued)

### Note B: Acquisitions

On January 29, 1984, the Company acquired substantially all of the operating assets of the Stix, Baer & Fuller Division (Stix) of Associated Dry Goods Corporation, including real estate, 12 department stores and one warehouse. The aggregate purchase price of the assets acquired was approximately \$93,000,000 and included 1,200,000 shares of Class A Common Stock. This acquisition has been accounted for as a purchase with the operations of Stix included in the Company's consolidated operations from January 29, 1984.

On September 30, 1984, the Company acquired substantially all of the operating assets of the Diamond's (Diamond's) and John A. Brown (Brown) divisions of Dayton Hudson, including 18 stores and one warehouse. The aggregate purchase price of the Diamond's and Brown assets acquired was approximately \$143,000,000. The Company sold 2,674,438 shares of Class A Common Stock in connection with the financing of this acquisition. This acquisition has been accounted for as a purchase with the operations of Diamond's and Brown included in the Company's consolidated operations from September 30, 1984.

On March 3, 1986, the Company acquired from R.H. Macy & Co., Inc. (Macy's) substantially all of the operating assets relating to 12 Macy's department stores, two of which were subsequently sold. The Company paid Macy's approximately \$136,400,000 in cash, which was generated primarily from the sale of 2,949,121 shares of Class A Common Stock, and assumed mortgage debt of approximately \$4,600,000. This acquisition has been accounted for as a purchase with the operations of Macy's included in the Company's consolidated operations from March 3, 1986. The following unaudited pro forma combined results of operations give effect to the Macy's acquisition as if it had taken place at the beginning of each year presented:

	<b>January 31 1987</b>	<b>February 1 1986</b>
<i>(In thousands of dollars except per share data)</i>		
Net sales .....	\$1,857,814	\$1,739,631
Net income .....	74,493	71,794
Net income per share .....	2.33	2.26

### Note C: Trade Accounts Receivable

By agreement, the Company sells (subject to reassignment of accounts in default) to DIC, substantially all of its customer accounts receivable. Trade accounts receivable consist of the following:

	<b>January 31 1987</b>	<b>February 1 1986</b>
<i>(In thousands of dollars)</i>		
Trade accounts receivable .....	\$472,639	\$387,612
Less: Accounts sold to DIC (net of Company's retained interest in such accounts) .....	(436,618)	(357,914)
Allowance for doubtful accounts .....	(7,200)	(6,000)
	<b>\$ 28,821</b>	<b>\$ 23,698</b>

## Notes To Consolidated Financial Statements (continued)

### Note D: Long-Term Debt

Long-term debt consists of the following:

<i>(In thousands of dollars)</i>	<b>January 31 1987</b>	<b>February 1 1986</b>
Promissory notes to institutional lenders (1):		
8.22% and 8.24% notes .....	\$ —	\$ 2,550
8.875% notes, payable in annual installments of \$755,000 through 1992 .....	4,530	5,285
10.375% note, due in annual installments of \$400,000 through 1995 .....	3,600	4,000
Unsecured notes to banks at rates ranging from 7.5% to 13.25% payable in annual installments aggregating \$15,000,000 through 1989 .....	45,000	60,000
Other unsecured notes:		
8.0% notes due January 15, 1999 .....	50,000	—
8.125% notes due November 1, 1993 .....	50,000	—
8.375% notes due April 15, 1996 (1) .....	50,000	—
	<hr/> <b>203,130</b>	<hr/> 71,835
Current portion .....	<b>(16,155)</b>	<b>(16,155)</b>
	<hr/> <b>186,975</b>	<hr/> 55,680
Mortgage notes, payable monthly or quarterly (some with balloon payments) over periods up to 31 years from inception and bearing interest at 5.625% to 13.375% (2) .....	119,256	108,501
Real estate note .....	—	25,000
	<hr/> <b>119,256</b>	<hr/> 133,501
Current portion .....	<b>(5,912)</b>	<b>(3,111)</b>
	<hr/> <b>113,344</b>	<hr/> 130,390
	<hr/> <b>\$300,319</b>	<hr/> \$186,070

- (1) The related loan agreements limit the parent company's funded debt and long-term lease obligations, unless certain financial tests are met, and require the maintenance of prescribed levels of working capital. The agreements also contain provisions which restrict the payment of dividends and the purchase of capital stock for cash. Under the most restrictive provision, in excess of \$95,000,000 of retained earnings were available for the payment of dividends at January 31, 1987.
- (2) Buildings (one of which is located on leased land), land, land improvements and equipment with a carrying value of \$108,199,000 at January 31, 1987 are pledged as collateral on these notes.

Maturities of long-term debt over the next five years are \$22,067,000, \$18,093,000, \$18,273,000, \$3,474,000 and \$13,109,000.

**Notes To Consolidated Financial Statements**  
*(continued)*

**Note D:**

**Long-Term Debt**  
*(continued)*

Interest and debt expense consists of the following:

<i>(In thousands of dollars)</i>	<b>January 31 1987</b>	February 1 1986	February 2 1985
Long-term debt:			
Interest .....	<b>\$24,177</b>	\$24,267	\$20,476
Amortization of debt expense .....	<b>72</b>	16	16
	<b>24,249</b>	24,283	20,492
Capital lease obligations .....	<b>1,332</b>	1,411	1,493
Dillard Investment Co., Inc. — net .....	<b>19,236</b>	17,584	14,594
Other .....	<b>3,190</b>	1,744	1,141
	<b>\$48,007</b>	\$45,022	\$37,720

**Note E:**

**Trade Accounts Payable  
and Accrued Expenses**

Trade accounts payable and accrued expenses are comprised of the following:

<i>(In thousands of dollars)</i>	<b>January 31 1987</b>	February 1 1986
Trade accounts payable .....	<b>\$114,159</b>	\$104,467
Accrued expenses:		
Taxes, other than income .....	<b>16,283</b>	13,629
Other .....	<b>48,113</b>	46,271
	<b>\$178,555</b>	\$164,367

## Notes To Consolidated Financial Statements (continued)

### Note F: Income Taxes

The provision for federal and state income taxes is summarized as follows:

(In thousands of dollars)	Year Ended		
	January 31 1987	February 1 1986	February 2 1985
<b>Federal income taxes:</b>			
Current .....	\$25,000	\$27,000	\$13,500
Deferred .....	<u>27,900</u>	<u>17,000</u>	<u>21,550</u>
	<b>52,900</b>	<b>44,000</b>	<b>35,050</b>
State income taxes .....	<u>4,500</u>	<u>4,000</u>	<u>3,000</u>
	<b>\$57,400</b>	<b>\$48,000</b>	<b>\$38,050</b>

A reconciliation between the effective income tax rate and the statutory federal income tax rate is presented below:

(In thousands of dollars)	Year Ended		
	January 31 1987	February 1 1986	February 2 1985
<b>Income tax at the statutory federal rate of 46% .....</b>			
\$60,655	\$52,855	\$40,300	
Investment tax credits .....	<u>(5,000)</u>	<u>(5,000)</u>	<u>(4,270)</u>
Effect of state income taxes .....	<u>(2,070)</u>	<u>(1,840)</u>	<u>(1,380)</u>
Other .....	<u>(685)</u>	<u>(2,015)</u>	<u>400</u>
	<b>\$52,900</b>	<b>\$44,000</b>	<b>\$35,050</b>

Deferred income taxes are attributable to the following items:

(In thousands of dollars)	Year Ended		
	January 31 1987	February 1 1986	February 2 1985
<b>Installment sales .....</b>			
\$11,038	\$ 8,572	\$18,928	
Inventory valuation reserve .....	<u>—</u>	<u>—</u>	<u>(2,603)</u>
Investment tax credits .....	<u>4,489</u>	<u>1,246</u>	<u>1,251</u>
Accelerated depreciation and basis differences .....	<u>13,588</u>	<u>10,374</u>	<u>4,904</u>
Other .....	<u>(1,215)</u>	<u>(3,192)</u>	<u>(930)</u>
	<b>\$27,900</b>	<b>\$17,000</b>	<b>\$21,550</b>

# Notes To Consolidated Financial Statements

## Note G: Stockholders' Equity

Capital stock is composed of the following:

Type	Par Value	Shares Authorized	Shares Issued and Outstanding		
			January 31 1987	February 1 1986	February 2 1985
Preferred (5% cumulative) .....	\$100	5,000	<b>4,400</b>	4,400	4,400
Class A, Common .....	—	76,800,000	<b>30,917,591</b>	27,901,694	27,778,566
Class B, Common .....	—	3,200,000	<b>1,345,832</b>	1,358,608	1,427,736
					Additional Paid-In Capital
			Common Stock Class A	Class B	
Balance at January 28, 1984 .....		\$29,737,730	\$1,852,100		\$38,966,595
Exchange of 53,944 shares .....		67,430	(67,430)		—
Issuance of 60,000 shares under stock option plan .....		75,000	—		90,469
Issuance of 1,200,000 shares in connection with Stix acquisition — Note B .....		1,500,000	—		14,250,000
Sale of 2,674,438 shares in connection with Diamond's and Brown acquisition — Note B .....		3,343,048	—		46,380,220
Balance at February 2, 1985 .....		34,723,208	1,784,670		99,687,284
Exchange of 69,128 shares .....		86,410	(86,410)		—
Issuance of 54,000 shares under stock option plan .....		67,500	—		86,906
Balance at February 1, 1986 .....		34,877,118	1,698,260		99,774,190
Exchange of 12,776 shares .....		15,970	(15,970)		—
Issuance of 54,000 shares under stock option plan .....		67,500	—		86,906
Sale of 2,949,121 shares in connection with Macy's acquisition — Note B .....		3,686,401	—		119,804,422
Balance at January 31, 1987 .....		<b>\$38,646,989</b>	<b>\$1,682,290</b>		<b>\$219,665,518</b>

Holders of Class A are empowered as a class to elect one-third of the members of the Board of Directors and the holders of Class B are empowered as a class to elect two-thirds of the members of the Board of Directors. Shares of Class B are convertible at the option of any holder thereof into shares of Class A at the rate of one share of Class B for one share of Class A. Shares issued and outstanding at January 31, 1987 and February 1, 1986 include 125,605 and 124,480 shares, respectively, of Class A which are being held as treasury stock.

On November 15, 1986, the stockholders increased the authorized shares of Class A to 76,800,000 and Class B to 3,200,000.

## Notes To Consolidated Financial Statements (continued)

### Note H: Stock Options

In May 1984, the Company's 1984 Incentive Stock Option Plan was approved by the stockholders. This plan provides for the granting of options to purchase 600,000 shares of Class A Common Stock to certain officers and employees of the Company. The option price is the market value of the shares at the time options are granted. The options become exercisable in four equal installments on the anniversary of the grant date, beginning with the second anniversary. Options not exercised prior to the fifth anniversary of the grant date are terminated. No options were exercisable at either year end. Options available for grant under this plan at the end of fiscal 1986 and 1985 were 400,500 and 486,000, respectively.

Under the terms of a 1973 stock option plan, 54,000 options were exercised during 1986. The plan expired during 1986.

Option transactions for fiscal 1986 and 1985 are summarized as follows:

	Shares Under Option		Aggregate Option Price	
	1986	1985	1986	1985
Outstanding at beginning of year ....	<b>168,000</b>	108,000	<b>\$2,975,907</b>	\$ 308,813
Granted .....	<b>85,500</b>	114,000	<b>3,259,687</b>	2,821,500
Exercised .....	<b>(54,000)</b>	(54,000)	<b>(154,406)</b>	(154,406)
Outstanding at end of year .....	<b>199,500</b>	168,000	<b>\$6,081,188</b>	\$2,975,907

### Note I: Capital Leases

Future minimum payments, by year and in the aggregate, under capital leases as of January 31, 1987 are as follows (thousands):

Fiscal Period	
1987 .....	\$ 2,225
1988 .....	2,100
1989 .....	1,786
1990 .....	1,786
1991 .....	1,786
After 1991 .....	16,501
Total minimum lease payments .....	26,184
Less: Amount representing interest .....	(11,508)
Present value of net minimum lease payments	<b>\$14,676</b>

## Notes To Consolidated Financial Statements

(continued)

### Note J: Operating Leases and Commitments

Rental expense consists of the following:

<i>(In thousands of dollars)</i>	<i>Year Ended</i>		
	<b>January 31</b>	<b>February 1</b>	<b>February 2</b>
	<b>1987</b>	<b>1986</b>	<b>1985</b>
<b>Operating leases:</b>			
Buildings:			
Minimum rentals .....	<b>\$18,409</b>	\$17,562	\$15,496
Contingent rentals .....	<b>5,841</b>	5,139	3,775
Equipment .....	<b>10,483</b>	8,401	4,549
Sublease revenues .....	—	(75)	(158)
	<b>34,733</b>	31,027	23,662
Contingent rentals on capital leases .....	<b>1,395</b>	1,573	1,633
	<b>\$36,128</b>	\$32,600	\$25,295

Contingent rentals on capital leases are based on a percentage of annual sales in excess of specified amounts. Other contingent rentals are based entirely on a percentage of sales.

The future minimum rental commitments as of January 31, 1987 for all noncancelable operating leases for buildings are as follows (thousands):

<i>Fiscal Period</i>	
1987 .....	\$ 17,454
1988 .....	17,242
1989 .....	17,051
1990 .....	16,675
1991 .....	16,369
After 1991 .....	212,311
	<b>\$297,102</b>

Renewal options from three to twenty-five years exist on the majority of leased properties.

The Company is committed at January 31, 1987, to incur costs of approximately \$35,000,000 to complete and equip certain stores.

# Notes To Consolidated Financial Statements

CONTINUED

## Note K: Other Information (Unaudited)

**Quarterly Results of Operations:** The following is a tabulation of the unaudited quarterly results of operations for the years ended January 31, 1987 and February 1, 1986 (thousands, except per share data):

	<b>Fiscal 1986</b>			
	<i>Three Months Ended</i>			
	<b>May 3</b>	<b>August 2</b>	<b>November 1</b>	<b>January 31</b>
Net sales .....	\$369,899	\$409,602	\$442,935	\$628,987
Gross profit .....	140,047	147,787	164,663	219,769
Net income .....	11,796	11,501	13,740	37,421
Per common share .....	.39	.36	.43	1.16

	<b>Fiscal 1985</b>			
	<i>Three Months Ended</i>			
	<b>May 4</b>	<b>August 3</b>	<b>November 2</b>	<b>February 1</b>
Net sales .....	\$323,268	\$355,895	\$383,640	\$538,554
Gross profit .....	119,761	128,795	142,548	194,054
Net income .....	10,227	11,075	12,085	33,516
Per common share .....	.35	.38	.41	1.15

The Company's LIFO adjustment for 1986 and 1985 was less than previously estimated in preparing the quarterly financial statements for the first three quarters of each year. As a result, fourth quarter net income was approximately \$3,200,000 (\$.10 per share) higher in 1986 and \$1,800,000 (\$.06 per share) higher in 1985 than it would have been had the actual LIFO adjustment been known at the beginning of the year. This impact would have been shared approximately equally by each of the three previous quarters.



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